

Dear Financial Officer:

It's a fact - the world of public finance is constantly changing. That's why it is so important to keep informed about the statutes governing public funds investments.

I am pleased to provide you this up-to-date copy of The Bottom Line - Indiana's Public Funds Investment Manual. This manual includes changes made during the 1996 session of the General Assembly, several of which were recommended by the Public Finance Study Commission (Public Law 40-1995).

The Public Finance Study Commission met during the 1995 interim to identify ways to clarify and streamline Indiana's public funds investment laws. Some of the more significant changes recommended and passed by the General Assembly include: a complete separation of local investment statutes from the state's; a streamlined procedure for designating depositories; elimination of pro rata distribution of local public funds; and a state depository is no longer required to have a charter in the State of Indiana in order to be eligible to receive public funds.

One of my chief duties as State Treasurer is to manage the Public Deposit Insurance Fund which protects deposits of state and local public funds in the event of financial institution failures. Of paramount concern to me is the safety not only of the Public Deposit Insurance Fund, but also your public funds. Keep in mind it is important to follow the rules set out in this manual when investing funds. If the rules are not followed properly, the funds may not be insured by the Public Deposit Insurance Fund.

I hope The Bottom Line is a helpful resource for you. Please contact my office at (317) 232-6386 with any questions concerning your investments.

Sincerely,

Richard Mourdock
Treasurer of State

The Bottom Line – 2000Indiana's Public Funds Law

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Indiana Code: Title 5, Article 13 – Investment of Public Funds

Designation of Depositories/ Board of Finance

Who is eligible to become a public depository?

Any “financial institution” may apply to the state board of finance to become a depository and receive public funds of any political subdivision if it meets the following criteria:

- 1 A bank, trust company, or mutual savings bank that:
- 2 A national banking association with its principal office or branch in Indiana
- 3 A savings association operating as a deposit association incorporated under Indiana law
- 4 A federal chartered savings association with its principal office or a branch in Indiana
- 5 A federally chartered savings bank with its principal office or a branch in Indiana
- 6 A state chartered credit union in Indiana that is federally insured or privately insured and that has assets of three million dollars (\$3,000,000) or more. (IC 5-13-4-10)
 - a. was incorporated under the law of Indiana or any other state; and
 - b. has its principal office or a branch in Indiana

To apply to become a depository, a financial institution who meets the above conditions, must contact the Board for Depositories by calling 317-232-5257, or through the Treasurer of State website at www.state.in.us/tos. Upon the completion of the application, the Treasurer of State will perform due diligence on the application and make recommendation to the State Board of Finance.

With what financial institutions may I deposit my funds?

All public funds of political subdivisions shall be deposited in the designated depositories located in the respective territorial limits except in the following instances. (IC 5-13-8-9)

- A political subdivision of the following type can designate depositories which do not have a principal office or branch within the boundaries of the political

subdivision must meet all other criteria

A. County Hospitals

County hospitals may designate depositories outside the boundaries of the county in which the hospital is located. Such depositories must be approved by the State Board of Finance.

B. Political Subdivisions Crossing County Lines

A political subdivision, other than a city, town, or school corporation, with jurisdiction crossing one or more county lines, may limit its boundary for designating depositories. The boundary may be limited to the area of the political subdivision within the county where the political subdivision's principal office is located.

C. No eligible Institution Within Boundary

If no eligible financial institution is located within a political subdivision or if no financial institution within the political subdivision will accept public funds, then the board of finance must designate one or more financial institutions with a principal office or branch within the state.

D. Only One Eligible Institution Within Boundary

If only one eligible financial institution in a county or political subdivision is willing to accept public funds, the board of finance may treat the financial institution as if it were not located in the political subdivision and designate one or more financial institutions with a principal office or branch within the state.

Who comprises the local Board of Finance?

County – The board of commissioners and the county treasurer

Marion County – County Treasurer, County Auditor, County Assessor, City Controller, Mayor, President of the school board City – The executive and fiscal body

Town – The fiscal body

Other – the fiscal body of each political subdivision that is not a county, city Or town

When must the local Board of Finance meet, and what must they do?

Each local board of finance SHALL meet annually after the first Monday and on or before the last day of January. At the meeting the board of finance shall do the following:

1. from the board's membership:
 - a. elect a president
 - b. elect a secretary
- 1 receive and review the report required by IC 5-13-7-7
- 2 review the overall investment policy of the political subdivision

The report identified by IC 5-13-7-7 includes:

1. a written report summarizing all investments during the previous calendar year . This must contain the name of each financial institution, government agency or instrumentality, or other person with whom the political subdivision invested money during the previous calendar year.

The president of each board shall convene the board whenever requested to do so by one of its members.

Deposit and Investment Options

What are eligible deposit accounts?

Eligible deposit accounts mean any of the following:

- 1 Any account subject to withdrawal by negotiable orders of withdrawal, unlimited as to amount or number, and without penalty, including NOW accounts
- 2 Passbook savings accounts
- 3 Certificates of deposit
- 4 Money market deposit accounts
- 5 Any interest-bearing account that is authorized and offered by a financial institution in the course of its respective business

What are eligible investment products?

Each investment officer may invest or reinvest any funds that are held by the officer and available for investment in any of the following (IC 5-13-9):

1. Securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by any of the following:
 - A. The United States Treasury
 - B. A federal agency
 - C. A federal instrumentality
 - D. A federal government sponsored enterprise
2. Discount notes issued by any of the following:
 - A. A federal agency
 - B. A federal instrumentality
 - C. A federal government sponsored enterprise

An investment officer shall annually obtain the approval of the fiscal body of the political subdivision or the governing body of the local government entity before making investments in the following:

3. money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended. The portfolio of this type must be limited to the following:
 - A. Direct obligations of the United States
 - B. Obligations issued by any of the following:
 - a. A federal agency
 - b. A federal instrumentality
 - c. A federal government sponsored enterprise
 - C. Repurchase agreements fully collateralized by obligations described in both A and B above.

The money market mutual fund must be rated as one of the following:

- A. AAAm, or its equivalent, by Standard and Poor's Corporation
- B. Aaa, or its equivalent, by Moody's Investors Service, Inc.

The investment is considered to have a stated final maturity of one day, and shall be made through depositories designated by the state board of finance as depositories for state deposits under IC 513-9.5.

Are repurchase agreements acceptable?

Each investment officer may enter into, with any funds that are held by the officer and available for investment, repurchase agreements:

- 1 with depositories designated by the state board of finance as depositories

under IC 5-13-9.5; and

2 involving the political subdivision's purchase and guaranteed resale of any interest-bearing obligations:

A. issued; or

B. fully insured or guaranteed: by the United States, a United States government agency, an instrumentality of the United States, or a federal government sponsored enterprise

The depository shall determine daily that the amount of money in this type of agreement must be fully collateralized by interest-bearing obligations as determined by their current market value. The collateral is not subject to the two-year maturity limitation.

Repurchase agreements may be entered into for a fixed term or arranged on an open or continuing basis as a continuing contract that:

1 operates like a series of overnight repurchase agreements (may be referred to as overnight sweep products)

2 is renewed each day with the repurchase rate and the amount of funds invested determined daily; and

3 for this purpose is considered to have a final maturity of one day

Other Securities?

Each investing officer may invest or reinvest in obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Redevelopment or the African Development Bank (IC 5-13-9-3.3)

Are there any other allowable investments?

IC 36-1-7-1 authorizes and permits local units of government to enter into interlocal cooperation agreements, and thus to exercise a power jointly pursuant to a written agreement authorized by ordinance or resolution. MBIA provides through Invest Indiana, such an interlocal agreement. The investments of the joint structure are limited to all investments authorized by IC 5-13.

What rules are investments subject to?

1. A security purchased must have a final maturity date of two years or less from the date of purchase or entry into a repurchase agreement (IC 5-139-5.6).

A. For a conservancy district located in a city having a population between 4,300 – 4,600 and a town with a population between 4,000 – 5,000 in a county having a population between 75,000 – 78,000 for investments from a host community agreement future fund established by ordinance of a town, the final maturity date shall not exceed 5 years.

1 The investing officer of each political subdivision is the legal custodian of all Treasury securities. In order to meet this duty, the investing officer shall accept safekeeping receipts or other reporting for securities from (1) a designated depository or, (2) a financial institution located either in or out of Indiana having custody or securities with a combined capital and surplus of at least ten million dollars (\$10,000,000). The state board of accounts may rely on safekeeping receipts or other reporting from any depository or financial institution (IC 5-13-9-2).

2 If a security is purchased at a premium, the difference between the par value and the cost must be deducted from the first interest payment received from the securities. Such payments must be returned to the fund from which the security was purchased. After fully deducting the premium from the interest received, the amount remaining is considered interest income (IC 5-13-9-2).

3 A security may be sold prior to maturity. A security may also be exchanged, if the security received meets the same statutory requirements of the original security (IC 5-13-9-2).

A few entities have additional investment powers:

This section applies only to the following:

Conservancy district located in a city having a population between 4300-4600

Town having a population between 4,000 – 5,000 and located in a county with a population between 75,000-78,000

1. The conservancy district may invest up to 25% of the total portfolio of funds invested by the officer of the conservancy district in:
 - A. municipal securities
 - B. equity securities
2. The town may invest up to 25% of the total portfolio of funds invested by the clerk-treasurer in a host community agreement future fund established by ordinance of the town in:
 - A. municipal securities
 - B. equity securities

In both cases the investment may be made having a stated final maturity of any number of years or having no stated final maturity. Total investments in this type of investment are limited to 25% of the total portfolio of the political subdivision. However, an invest that complies with this subsection when the investment is made remains legal even if a subsequent decrease in the total portfolio invested causes the percentage of investments outstanding which comply with this standard to exceed the 25% limit. (IC 5-13-9-2)

What is the Public deposit Insurance Fund (PDIF), and what does it cover?

The Public Deposit Insurance Fund (PDIF) was created by the Acts of 1937 to protect the public funds of the state and its political subdivisions deposited in approved financial institutions. The PDIF insures those public funds deposited in approved financial institutions which exceed the limits of coverage provided by any federal deposit insurance. The PDIF is administered by the Board for Depositories. The Board's members include the Governor, Treasurer of State, Auditor of State, Chair of the Department of Financial Institutions, Chief Examiner of the State Board of Accounts and four gubernatorial appointees. The Governor serves as Chair, and the Treasurer serves as Secretary-Investment Manager and directs the day-to-day activities of the Board. The Board is charged with collecting and monitoring information relating to the level of public funds on deposit in the state and the financial strength of approved financial institutions.

The Board is charged with the responsibility of periodically determining the adequacy of the PDIF. The Board, has the authority to levy assessments against approved financial institutions. From its inception until 1985, approved financial institutions were assessed a monthly fee not to exceed 2% of the sum of the minimum public fund balances they held during that period. These assessments were suspended in 1985 when it was determined the PDIF had sufficient reserves for losses. The fund currently lists assets in excess of \$300 million. Indiana is the only state to have an insurance fund for public deposits.

The Fund insures all deposit accounts for political subdivisions as long as the fiscal officer deposits and invests funds according to the requirements of Title 5, Article 13 of the Indiana Code.

What is considered a "transaction account", and how many must I have?

"Transaction account" means any deposit account other than a certificate of deposit (IC 5-13-4-24).

Each investing officer may deposit, invest, or reinvest any funds that are held by the officer and available for investment in transaction accounts issued or offered by a designated depository of a political subdivision for the rates and terms agreed upon periodically by the officer making the investment and the designated depository. The fiscal body of a political subdivision shall require the investing officer to deposit and maintain deposits that are invested or reinvested as follows:

- 1 In one or more depositories designated by the political subdivision, if the sum

of the monthly average balances of all of the transaction accounts for the political subdivision does not exceed \$100,000

2 In each depository designated for the political subdivision, if item 1 above does not apply and less than three financial institutions are designated by the local board of finance as a depository

3 In at least two depositories designated for the political subdivision, if item 1 above does not apply and at least three financial institutions are designated by the local board of finance as a depository (IC 5-13-9-4)

May I just renew my CD with the same bank? What process must I go through to issue a CD?

Whenever investments are made in a certificate of deposit, the investing officer must obtain quotes of the specific rates of interest for the term of that certificate of deposit. The following rules apply to the solicitation of such quotes:

1 The quotes may be taken by phone

2 The quotes must be recorded in a memorandum and retained as a public record

3 The deposit shall be placed with the designated depository quoting the highest rate of interest. (make sure terms are quotes consistently either 360 or 365 day calendar)

4 If two or more depositories tie for the highest quote, the deposit may be placed in any or all of the designated depositories quoting the highest rate in the amount or amounts determined by the investing officer, in the investing officer's discretion

5 If all the designated depositories of a political subdivision decline to issue interest rate quotes equal to the highest rate being offered other investors, investments may be made in the deposit account of any financial institution designated for state investments as a depository by the State Board of Finance (IC 5-13-9-4).

May I invest with depositories outside my political subdivision's boundaries?

Investments in certificates of deposit may be made with depositories outside of the political subdivision if the following rules are followed:

1 The board of county commissioners of a county or the fiscal body of another political subdivision must adopt an ordinance or resolution which authorizes the investing officer of the political subdivision to invest in certificates of deposit which have been designated by the state board of finance as a state depository.

2 Quotes must be solicited from at least three depositories. If a political subdivision has only one depository, one quote must be solicited from that depository.

If a political subdivision has two or more depositories then at least two quotes must be solicited from those designated depositories.

3 Quotes may be taken by telephone

4 Quotes must be recorded in a memorandum and retained as a public record

5 The investment is made in the depository quoting the highest rate of interest as determined after deducting any fee charged by the depository

6 If two or more depositories submit the same highest quote, the investment shall be placed as follows:

- A. If only one of the highest quotes is from a designated depository for the political subdivision, the investment shall be placed in that depository.
- B. If more than one of the highest quotes are from designated depositories of the political subdivision, the investment shall be placed in any or all of those depositories in the amount or amounts determined by the investing officer, in the investing officer's discretion.
- C. If none of the highest quotes are from designated depositories of the political subdivision, the investment shall be placed in one of the depositories submitting the highest quote (IC 5-13-9-5).

Am I allowed to transact business through electronic means?

Yes, the fiscal body of any political subdivision may by ordinance or resolution authorize the proper legal officers of the political subdivision to transact the political subdivision's business with a financial institution through the use of electronic funds transfer (IC 5-13-5-5)

Can the financial institution charge political subdivisions service charges?

Nothing in this world is free. A financial institution is charging you service fees either through hard dollar costs, or through compensating balances in low or no interest accounts. Hard dollar charges shall be paid only if the depository requires all of its customers to pay for comparable services. The service charge paid must be subtracted from interest rate quotes if the bidding process is followed. The service charge may be paid by direct charge to the deposit account or in any other manner mutually agreed upon by the investing officers and the depository (IC 5-13-9-8).

What does an investment cash management system cover?

Local investment officers may contract with a designated depository for the

operation of an investment cash management system. If no institution within a political subdivision's boundaries will provide such a system, then the contract may be awarded to a depository outside the political subdivision's boundaries but with a principle office or branch within the state. If a depository outside the political subdivision's boundaries is chosen, it may only be used as a depository for purposes of NOW or checking accounts unless said institution is approved as any other depository outside the political subdivision (IC 5-13-11).

The investment cash management system contract must meet at least the following criteria:

- 1 be in writing
- 2 Provide for the investment of funds by the depository with approval of the local investing officer
- 3 Provide that the depository keep the same records that the political subdivision would maintain for audit by the state board of accounts
- 4 Provide that investments are made in accordance with Indiana Code Title 5, Article 13
- 5 Not have a term of more than two years
- 6 Be awarded under the bidding provisions of IC 36-1-9

The depository may assess a service charge, but the charge must be in the contract. In addition the political subdivision must receive at least a monthly transaction statement.

Title 5

Article 13: Investment of Public Funds

Go to the [Indiana Legislative website](#) to view the code.